BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2008-393-E - ORDER NO. 2008-741

OCTOBER 28, 2008

IN RE: Petition of South Carolina Electric & Gas Company for Authorization to Delay the Commencement of Depreciation of Certain Pollution Control Facilities and to Defer Purchased Power and Incremental Operation and Maintenance Expenses That Will Be Incurred as a Result of Construction of these Pollution Control Facilities	)	ORDER GRANTING REQUEST FOR AN ACCOUNTING ORDER

This matter comes before the Public Service Commission of South Carolina ("Commission") on the Petition of South Carolina Electric & Gas Company ("SCE&G" or "the Company") for an accounting order for regulatory purposes authorizing SCE&G to (i) delay the commencement of depreciation that the Company will incur after certain pollution control facilities are completed and placed into utility service, (ii) defer as a regulatory asset the incremental purchased power expense that SCE&G will incur when South Carolina Generating Company, Inc. ("GENCO") includes certain pollution control facilities within its rate base, thus becoming part of its billing to SCE&G, and (iii) defer as a regulatory asset the incremental operation and maintenance expenses that SCE&G will incur associated with these pollution control facilities.

According to SCE&G, the request for relief will not involve a change to any of SCE&G's retail rates or prices at this time, nor require any change in any Commission rules, regulations, or policies. The Company further states that the issuance of the requested accounting order will not prejudice the right of any party to address these issues in a subsequent general rate case proceeding. Therefore, the Company asserts that no notice or hearing is required in this matter. See S.C. Code Ann. Section 58-27-870 (F) (Supp. 2007).

By way of information, SCE&G states that in March 2005, the United States Environmental Protection Agency ("EPA") issued a final rule known as the Clear Air Interstate Rule ("CAIR"). CAIR required that the District of Columbia and twenty-eight (28) states, including South Carolina, reduce sulfur dioxide ("SO2") and nitrogen oxide ("NOx") emissions in order to attain mandated air quality levels. CAIR established emission limits to be met in two phases beginning in 2009 and 2015, respectively for NOx and beginning in 2010 and 2015, respectively for SO2. In addition, the EPA required some states to enact a State Implementation Plan designed to address air quality issues. The South Carolina State Implementation Plan ("the Plan") required, among other things, the reduction of SO2 emissions from coal-fired generating facilities. The Plan also required a reduction in NOx emissions in the months of May through September until 2009 when the CAIR limits would become effective. CAIR and the Plan directly impacted SCE&G and GENCO, according to the Company.

As a result of CAIR and the Plan, and to meet its compliance requirements, SCE&G decided to install desulfurization equipment (wet scrubber) in connection with the operation of the Company's Wateree generating station located in Richland County ("Wateree Station") to reduce SO2 emissions at the plant. In addition, SCE&G elected to install a Selective Catalytic Reactor ("SCR") at its Cope generating station located in

Orangeburg County ("Cope Station") to reduce NOx emissions at the plant. As of August 31, 2008, SCE&G incurred approximately $164 million in costs related to the construction of the wet scrubber at Wateree Station and approximately $44 million in costs in connection with the construction of the SCR at Cope Station. Construction of the wet scrubber and SCR continues today.

With regard to GENCO, it was also decided that desulfurization equipment (wet scrubber) should be installed in connection with the operation of Williams Station in order to meet the compliance requirements of CAIR and the Plan. As of August 31, 2008, GENCO incurred approximately $135 million in costs related to the construction of the wet scrubber at Williams Station. This construction continues today. SCE&G's wet scrubber, its SCR, and GENCO's wet scrubber are collectively referred to herein as "Pollution Control Facilities."

According to the Company, after installation is complete, the wet scrubbers will be capable of reducing SO2 emissions on SCE&G's system by approximately 56%. Moreover, the wet scrubbers will significantly reduce mercury emissions on SCE&G's system as well. In addition, after SCE&G's SCR becomes operational, it will be capable of reducing NOx emissions at the Cope Station by approximately 90%. According to the Company, these reductions in emissions will be a great benefit to the environment in South Carolina.

On July 11, 2008, the United States Court of Appeals for the District of Columbia Circuit, vacated CAIR in its entirety and remanded it to the EPA for further rulemaking. As of the date of the Petition, the EPA had not taken any action concerning the issuance of a new or revised rule addressing air quality standards. Nevertheless, SCE&G anticipates that the EPA will take some action in the future, but at this time does not know what impact any newly issued rule will have on its electric utility operations.

According to SCE&G, a significant amount of capital has already been invested by SCE&G and GENCO to comply with air quality standards. Although there is uncertainty regarding future action to be taken by the EPA, the Company continues to believe that there are significant environmental benefits to be achieved through reduced SO2 and NOx emissions, and that the Pollution Control Facilities will be critical to meeting future regulatory requirements. Therefore, SCE&G and GENCO are continuing with the construction of their Pollution Control Facilities.

SCE&G anticipates that its SCR at Cope Station will be operational in late 2008 and its wet scrubber at Wateree Station will be operational in late 2009. To complete the SCR at Cope Station, SCE&G anticipates incurring additional costs of approximately $25 million, and to complete the wet scrubber at Wateree Station, the Company anticipates incurring additional costs of approximately $123 million.

GENCO anticipates that its wet scrubber at Williams Station will be operational in late 2009. To complete the wet scrubber, GENCO anticipates incurring additional expenditures of approximately $130 million.

In sum, and when completed, the Pollution Control Facilities at SCE&G's and GENCO's generation stations will cost approximately $621 million.

According to the Company, the Pollution Control Facilities are a significant capital investment and as a result, the annual depreciation expense associated with these assets will also be significant. At current depreciation rates, SCE&G anticipates that the annual depreciation expense for SCE&G's wet scrubber will total approximately $18 million and approximately $3 million for the SCR. For GENCO's wet scrubber, SCE&G anticipates that the annual depreciation expense will total approximately $7 million. In sum, the annual depreciation expense to be incurred by SCE&G as a result of the Pollution Control Facilities will be approximately $28 million.

The Company asserts that under Generally Accepted Accounting Principles ("GAAP") and in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts (as adopted by the Commission), the cost of assets such as these Pollution Control Facilities are recorded on the Company's balance sheet as fixed assets and are charged to expense over the period in which these assets provide utility service and contribute to the earnings process. This systematic and rational allocation of an asset's costs over its service life and period of benefit is referred to as depreciation. Depreciation allows for the matching of expenses associated with a fixed asset to the revenue that the Company recognizes as a result of utilizing that asset to provide service. Under GAAP, this is referred to as the matching principle and is a fundamental concept in the accounting model. As part of electric utility ratemaking, annual depreciation expenses are included within the utility's Commission approved base rates.

According to the Company, the large amount of annual depreciation expense that SCE&G expects to incur after completion of the Pollution Control Facilities is not currently included within SCE&G's existing base rates. Therefore, the Company notes that it is not possible for it to "match" this expense with revenue to be collected. With such a large mismatch of expense to revenue, this event is a fundamental and material departure from the matching principle.

In addition to the increased depreciation costs associated with the Pollution Control Facilities, SCE&G and GENCO state that they will also experience an increase in incremental operation and maintenance costs. Although the amount of additional incremental operation and maintenance cost incurred will be dependent on various factors such as operational usage and pricing when these costs are incurred, based on industry experience, the Company believes that these increased costs will be significant.

Based upon the foregoing, SCE&G requests that this Commission grant the Company authorization to delay commencement of the depreciation of its wet scrubber at Wateree Station and its SCR at Cope Station until such time as rate recovery for these assets is provided for in SCE&G's Commission approved base rates. SCE&G further requests that it be allowed to defer as a regulatory asset the incremental operation and maintenance costs that it will incur associated with these Pollution Control Facilities at Wateree Station and Cope Station until such time as rate recovery of these costs is provided for in base rates. Additionally, because SCE&G purchases all the power generated at GENCO's Williams Station, the Company requests that the Commission grant SCE&G authorization to defer as a regulatory asset the purchased power expense (reflecting depreciation cost, return on rate base and incremental operation and maintenances costs) associated with the addition of a wet scrubber to GENCO's rate base until such time as recovery for these expenses is provided for in SCE&G's Commission approved base rates.

SCE&G states that if the Commission approves SCE&G's request, then the Company would not begin depreciation of the wet scrubber at Wateree Station or the SCR at Cope Station until such time as rate recovery for these assets is provided for in SCE&G's Commission approved base rates. Additionally, SCE&G would defer the incremental operation and maintenance costs associated with the Pollution Control Facilities at Wateree Station and Cope Station, defer costs associated with purchased power expense resulting from the addition of GENCO's wet scrubber to its rate base and seek recovery of these deferred expenses in a future application with the Commission seeking approval to adjust its retail rates and charges in a general rate case proceeding. In such a proceeding, the Company will request an appropriate mechanism for the recovery of these deferred expenses. SCE&G states that, at the present time, it has not made a decision as to when the Company will seek recovery of these costs.

In summary, SCE&G requests that the Commission issue an Order authorizing SCE&G to: (i) delay commencement of the depreciation of its wet scrubber at Wateree Station and its SCR at Cope Station until such time as rate recovery for these assets is provided for in SCE&G's Commission approved base rates; (ii) defer as a regulatory asset the purchased power expense that SCE&G will incur when GENCO includes its wet scrubber at Williams Station within its rate base until such time as recovery for these expenses is provided for in SCE&G's Commission approved base rates; (iii) defer as a regulatory asset the incremental operation and maintenance expenses that it will incur associated with these pollution control facilities and (iv) grant such other and further relief as is just and proper.

We have examined this matter, and hold that SCE&G has convincingly stated the case for issuance of the requested accounting order, and we hereby issue said Order. The relief requested by the Company is hereby granted as filed. We believe that the relief requested is based on legitimate accounting principles. We also note that no change in rates will result to the Company's customers if we grant the relief sought, and therefore hold that no notice or hearing is required, pursuant to the provisions of S.C. Code Ann. Section 58-27-870 (F) (Supp. 2007). We further hold that, with the issuance of this Order, no party is prejudiced from addressing the issues described in this Order in a subsequent general rate proceeding. Accordingly, the Petition is granted as filed, and the requested accounting order is hereby issued.

This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

Elizabeth B. Fleming

Elizabeth B. Fleming, Chairman

ATTEST:

John E. Howard

John E. Howard, Vice Chairman
(SEAL)